



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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INVESTORS CAUTIONED ABOUT BUYING STOCK WITH MARGIN LOANS

PHOENIX – Arizona’s securities regulator, the Arizona Corporation Commission, today cautioned investors about the risks and potential pitfalls of buying stock on margin, or with borrowed money. The growth of margin debt has accelerated over the past year, reflecting bullish sentiment on Wall Street and the influx of new investors into the stock market.

“While margin can give you leverage when your stocks are rising, it can exacerbate losses when your stocks go down,” said Mark Sendrow, director of the Commission’s Securities Division.

Margin rules allow investors to borrow up to 50% of the value of their stock portfolios. If the stocks decline in value an investor could receive a “margin call” from his or her brokerage firm. Margin calls require the investor to put more money into their account by a certain date. If the investor doesn’t have the money, the stocks can be sold to make up the difference.

“Our concern is that many investors don’t understand the fundamentals about margin loans. They need to treat margin like any other consumer loan and use it responsibly and prudently,” said Commission Chairman Carl Kunasek. All three Commissioners urge investors to carefully read their brokerage firm’s margin loan policies and contact their stockbroker if they have questions.

“It’s particularly risky to use borrowed money to buy highly volatile securities like shares in Internet startups,” said Commissioner Jim Irvin. Responding to such concerns, some online brokerage firms have restricted margin lending for the more risky stocks. Commissioner Irvin

cautioned investors that recent volatility in the stock market shouldn't cause them to question their commitment to a long-term, diversified financial portfolio. He stated that "Market gyrations like we've seen lately are more troublesome for traders than for investors." In further explaining the wild market swings, Commissioner William Mundell added that "Day traders sweat the minute-to-minute moves of stocks and are more likely to buy on margin. Investors take the long-term view and regularly put money into savings, mutual funds, 401(k) plans or a diversified portfolio of individual stocks."

"Fortunately," Sendrow added "despite the media hype, most Americans are investors, not traders, and they're unlikely to allow a few wild days on Wall Street to change their long-term commitment to saving and investing."

For more investor education information, call the Arizona Corporation Commission's Securities Division at (602) 542-4242 or visit their website at www.ccsd.cc.state.az.us.

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